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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 270 **October, 1982**

Business in Virginia September, 1982, Data

Business in September in Virginia did not do as well as it did in August. A broad measure of performance is the indicator known as bank debits to demand deposits. These thus are checking account transactions from all over the state and in every kind of business from the retailer to the raw materials sellers and buyers. On a dollar volume basis almost 85 percent of all business transactions are done by check. Hence, the importance of this indicator.

In September these checking account transactions were up only 15.7 percent above that of a year ago. When August was compared with August of last year, its bank debits rose 21.0 percent. Thus, the slowness that developed.

Most of it was that consumers just did not spend very much money. Prior thinking said the back-to-school sales would rise and this would help improve the economy. But such did not develop. The merchants had hoped so, as newspaper advertising linage rose 4.3 September of this year over last whereas the previous month of August showed a bad 2.0 percent decrease. September's retail sales, on a year-ago basis rose only 2.0 percent. The inflation rate on the same basis is running just under 6.0 percent. If this is removed from retail sales so that you get down to the "real sales," you are looking at about a minus 4.0 percent change in sales. If one is expecting the consumer to lead us out of the recession, one could surmise that little leading was done. There are, however, other factors, as the back page article indicates.

On the bright side of the ledger was the change in the value of building permits. In comparing September this year with that of last, permits rose 40.3 percent. This is the greatest so far this year. There is this about permits, however, they are terribly volatile. For example, in May they were down nearly 39 percent, in June up 7.1 percent, in July up 34 percent, and in August down 2.4 percent. If only they would just get up and stay, it would be most helpful.

Electricity consumed performed fairly well on course. It was up 2.8 percent over last September. On a year-to-date basis it is running at an increase of 1.5 percent. Thus, September was a little higher than usual. There is a lot of seasonality in the consumption of electricity. Summer and airconditioning now bring the greatest demand, but December with all of its festivities is not far behind.

Still on the bad side of the ledger are new-car registrations. They were down again and this time by 13.6 percent. So far this year they have been up only one month and that was June when they rose a poverty stricken 0.1 percent. Apparently, this fall the inventories of the 1982 models and the new 1983 cars are getting tangled up with each other and business is just not moving too well.

As this Report goes to press, the nonagricultural employment data for September are not yet reported by the Virginia Department of Labor and Industry. On the basis of January through August the increase has been 0.2 percent, which is not all that much. Some months have even been slightly negative. This is the job market and it needs some help.

Water consumption was down 0.3 percent and postal receipts up 14.6 percent in September.

(Continued on the back page)

Chart I

Nine Selected Business & Economic Indicators Percentage Change

Percentage Change September, 1982 from September, 1981

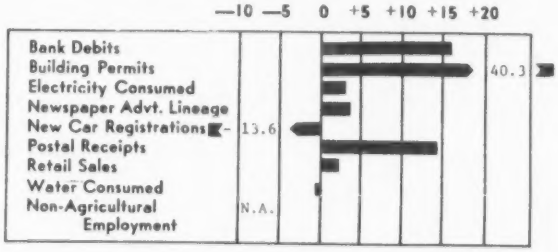
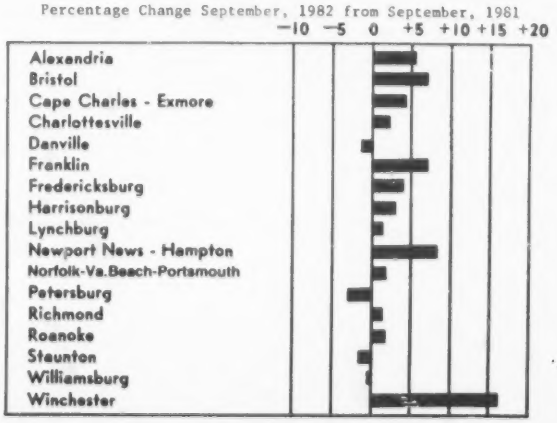


Chart II

City Indices

Percentage Change September, 1982 from September, 1981



SELECTED BUSINESS AND ECONOMIC INDICATORS
FOR 17 CITIES

TABLE I September 1982

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS PAPER ADV LINAGE	NEW CAR REGIS TRATIONS	NON AGRI CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		249.6	149.3	112.4	105.5	90.8	N.A.	94.0	135.7	176.0
Alexandria	202.2	620.5	150.6	118.2	N.A.	107.1	N.A.	107.7	154.0	N.A.
Bristol	118.0	184.2	53.0	81.5	83.7	75.1	N.A.	72.5	124.1	192.6
Cape Charles - Exmore	118.0	140.1	109.5	116.5	N.A.	76.6	N.A.	N.A.	114.7	148.9
Charlottesville	162.0	216.5	32.1	107.3	N.A.	110.2	N.A.	121.4	190.2	169.9
Danville	116.3	N.A.	46.6	106.3	97.0	62.2	N.A.	84.8	144.1	147.6
Franklin	115.0	N.A.	82.0	94.3	110.2	83.6	N.A.	121.5	120.9	147.8
Fredericksburg	132.6	145.4	48.9	N.A.	123.8	104.4	N.A.	77.3	148.5	164.7
Harrisonburg	139.7	168.0	31.0	N.A.	134.8	88.7	N.A.	118.8	132.7	209.4
Lynchburg	163.8	354.5	170.8	104.5	N.A.	69.9	N.A.	121.7	117.7	306.5
Newport News - Hampton	116.3	173.0	110.9	104.5	97.5	77.3	N.A.	111.3	122.3	N.A.
Norfolk - Va. Beach - Portsmouth	106.1	101.3	163.8	122.7	105.3	85.8	N.A.	75.7	119.3	N.A.
Petersburg	104.6	91.7	292.6	N.A.	78.0	72.1	N.A.	84.2	127.7	127.8
Richmond	135.1	282.4	N.A.	116.9	100.7	82.6	N.A.	100.4	124.7	158.2
Roanoke	127.6	200.8	67.3	88.5	117.4	67.4	N.A.	97.5	139.3	159.0
Staunton	134.4	96.1	24.6	N.A.	N.A.	88.6	N.A.	N.A.	100.9	318.7
Williamsburg	146.9	146.9	235.7	140.8	N.A.	122.0	N.A.	101.5	127.6	281.1
Winchester	140.9	273.3	432.6	109.9	150.8	95.3	N.A.	103.6	123.8	163.6

TABLE II September 1982

Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS PAPER ADV LINAGE	NEW CAR REGIS TRATIONS	NON AGRI CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	Aug. RETAIL SALES ‡
The State		15.7	40.3	2.8	4.3	-13.6	N.A.	-0.3	2.0	9.0
Alexandria	5.5	39.1	-45.4	2.5	N.A.	-16.6	N.A.	20.1	-2.2	8.4
Bristol	6.3	18.0	21.0	1.0	9.0	-24.9	N.A.	-4.7	17.2	5.2
Cape Charles - Exmore	4.8	0.2	34.7	7.5	N.A.	-3.1	N.A.	N.A.	8.0	0.7
Charlottesville	2.3	-2.4	-64.8	1.0	N.A.	-1.5	N.A.	9.5	3.2	-7.3
Danville	-1.7	N.A.	-88.0	0.1	9.2	-15.6	N.A.	-1.9	-1.3	-1.6
Franklin	7.3	N.A.	46.0	5.2	2.9	-3.8	N.A.	18.3	9.5	15.4
Fredericksburg	4.2	25.4	-42.7	N.A.	-2.7	-7.7	N.A.	-26.9	13.8	-10.2
Harrisonburg	3.3	7.8	-81.5	N.A.	2.5	6.5	N.A.	6.9	-0.1	4.5
Lynchburg	0.9	18.1	-59.3	0.2	N.A.	-22.0	N.A.	-8.0	6.0	-2.7
Newport News - Hampton	8.1	52.4	10.3	1.9	2.9	-18.5	N.A.	-1.5	9.2	7.8
Norfolk - Va. Beach - Portsmouth	2.0	17.4	96.3	3.4	1.2	-16.3	N.A.	6.7	1.1	5.7
Petersburg	-2.7	-33.7	-7.7	N.A.	-1.3	20.2	N.A.	-20.0	5.3	0.7
Richmond	0.9	13.8	16.4	5.4	0.5	-9.0	N.A.	-8.1	1.6	-1.0
Roanoke	1.5	-2.9	225.2	1.4	4.9	-10.2	N.A.	6.1	4.1	-4.6
Staunton	-1.1	-1.9	-52.9	N.A.	2.2	-0.4	N.A.	N.A.	-2.2	-2.4
Williamsburg	-0.1	-25.6	525.7	-0.6	N.A.	30.9	N.A.	-9.4	1.2	-8.2
Winchester	15.7	88.3	252.0	6.0	44.5	-12.5	N.A.	-7.7	2.2	1.0

TABLE III

Percentage Change January - September from same period last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS PAPER ADV LINAGE	NEW CAR REGIS TRATIONS	NON AGRI CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	Jan.-Aug. RETAIL SALES
The State		22.7	-2.2	1.5	-1.8	-17.4	N.A.	2.8	3.3	4.2
Alexandria	6.1	45.9	-49.8	4.6	N.A.	-17.1	N.A.	1.7	2.7	6.2
Bristol	-1.7	7.3	2.3	-2.8	0.0	-25.6	N.A.	-11.1	6.3	5.9
Cape Charles - Exmore	-1.3	6.7	-57.9	0.8	N.A.	-20.9	N.A.	N.A.	1.9	-7.7
Charlottesville	4.3	10.7	5.5	2.2	N.A.	-13.4	N.A.	6.8	8.0	8.0
Danville	3.3	N.A.	3.9	-7.2	-2.7	-30.9	N.A.	-9.2	24.3	1.3
Franklin	-0.4	N.A.	-26.2	0.4	-1.7	-9.7	N.A.	11.9	-1.3	-4.1
Fredericksburg	-2.2	16.3	-54.9	N.A.	-7.3	-11.7	N.A.	-15.4	1.0	2.2
Harrisonburg	-3.4	0.1	-69.3	N.A.	-0.1	-27.0	N.A.	2.5	0.2	6.5
Lynchburg	-2.6	18.7	-11.5	-1.3	N.A.	-22.7	N.A.	-12.8	0.0	-1.7
Newport News - Hampton	5.3	42.7	-20.3	0.9	-1.9	-20.8	N.A.	1.7	6.6	6.9
Norfolk - Va. Beach - Portsmouth	4.7	27.7	38.1	2.1	-3.6	-16.9	N.A.	21.3	2.2	3.7
Petersburg	-4.8	-4.2	-55.5	N.A.	-8.4	-20.9	N.A.	-5.1	1.6	3.0
Richmond	0.8	20.1	-43.9	1.9	-5.1	-13.7	N.A.	-2.7	1.9	3.0
Roanoke	1.6	15.6	-19.4	-3.1	2.7	-20.3	N.A.	1.9	5.4	3.2
Staunton	-3.0	-10.6	33.4	N.A.	-0.5	-20.1	N.A.	N.A.	4.4	0.2
Williamsburg	-2.2	12.9	25.0	3.3	N.A.	-8.4	N.A.	-8.8	-4.9	-0.4
Winchester	8.2	67.8	-28.0	1.5	13.6	-20.5	N.A.	-1.1	1.3	-1.3

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits, which is excluded because of its highly erratic nature.

†Preliminary data based on a survey sample.

‡Revised data based on sales tax information which lags behind current reports.

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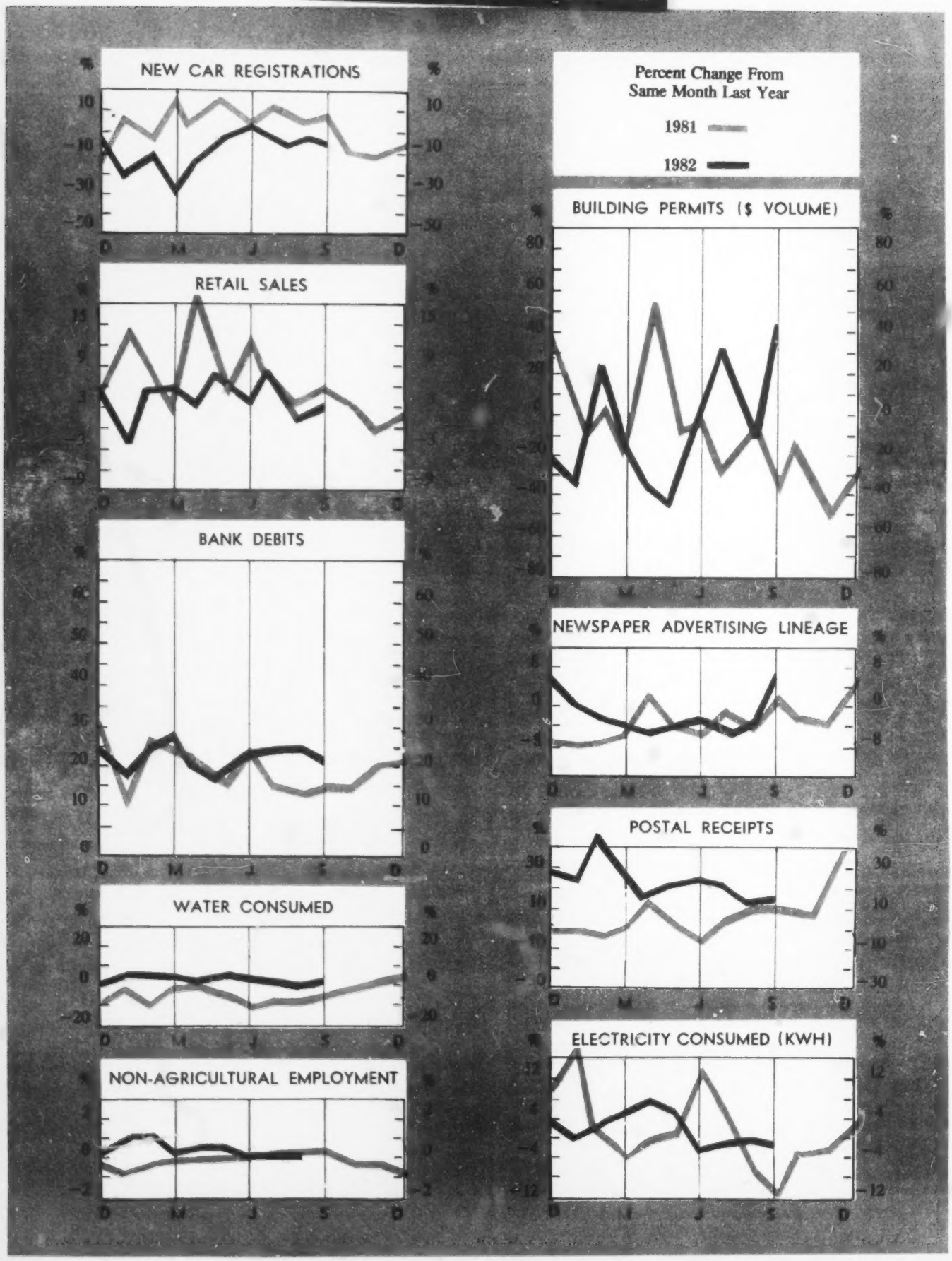

Gloom or Bloom?

The question on the minds of so many businessmen and economists is this: Where is the U.S. economy? Are we still in a recession or has the turning point been reached? If it has, then we should now be in the beginnings of the expansion (recovery) phase of the business cycle.

Since we are as close to current events as we always are, it is more than monumentally difficult to determine the turns either up or down as they are happening. We need more data and some historical perspective, which is also known as 20/20 hindsight.

In 1974 when the nation was in one of the worst and longest recessions since World War II, the then Chairman of the Federal Reserve Board, Dr. Arthur Burns, who was and is one of the ablest analysts of cycles, declared in a hearing before Congress in August of that year that we were not in a recession. The dates on that recession turned out to be from November, 1973, to March, 1975. If one of the great students of business cycles was not aware of this turn of events, how are we lesser mortals to know?

To avoid a lot of the guesswork, analysts everywhere allow the National Bureau of Economic Research to be the arbiter of business cycle dates. It is a nonprofit, privately funded research organization of impeccable credentials located in Cambridge, MA. Its origins date back to the 1920s and it has done more business cycle research than any other organization in the U. S. Ironically, Dr. Burns was head of NBER not so many years ago.

In setting dates the Bureau uses four principal criteria, according to Dr. Geoffrey H. Moore, who for years was the director of research. In his words, "A recession is a recurring period of decline in total output, income, employment, and trade, usually lasting six months to a year and marked by widespread contractions in many sectors of the economy." This can, of course, go on for more than a year (witness the 1973-75 downturn) and it must be widespread geographically as well as throughout numerous kinds of businesses. This takes in-depth research and time enough to get all of the revised and reliable figures together.

Since 1975 the only recession that the Bureau has dated is January-July, 1980. In the discussions of the most recent downturn the date generally assigned is July of 1981. This is not official. Nor is an "old rule of thumb" that says a recession begins when gross national product adjusted for inflation (real GNP) becomes negative for two successive quarters. As Dr. Moore and others are quick to point out, the Bureau has never used this yardstick. It is true, however, that in all of the NBER dates two or more successive quarters of real GNP have been negative, except 1980. Most recently, the last quarter of 1981 and the first quarter of 1982 were both negative. The second quarter of this year came in at a plus 2.1 percent and the third just in at a plus 0.8 percent.

Does this mean that the recession is now over? Not necessarily, even by a "rule of the thumb." None of the data shows strength enough. Third quarter GNP could get revised downward. It will take some time to assess but there is hope now in the air. Some brightness had occurred in the second quarter, but then retail sales turned sour in August as did industrial production, new orders for durable goods, average weekly hours for manufacturing, and especially average weekly initial claims for state unemployment insurance. So far September figures have been more reassuring. This is part of the unevenness and backing and filling.

There are those who want to see doom and gloom apparently, for they are looking at unemployment, investment in new tools, plants and expansions, utilization of industrial capacity, and business failures. Most of these, though, are lagging economic indicators and will not turn up until after recovery begins. They are not leaders but followers. One cannot look to them for the future.

Even so some of this has led analysts such as Lester Thorow of MIT and Sam Nakagama of Kidder Peabody to declare the recession is not only on but also that there will be no turning toward recovery until sometime in 1983.

Eventually consumers will turn on the economy. Consumption spending constitutes about 65 percent of GNP. If consumers start buying, the whole chain from retail sales, to inventories, to production, to raw materials will respond favorably. But at the moment consumer sentiment seems sour. Buyers have the money to spend, but they are reluctant, as many are looking at unemployment and playing a "waiting" game. Yet, there is hope as personal consumption expenditures in GNP have turned up for the last three quarters. What will improve this? Possibly a number of brighter things that are going on even amid some gloom.

One of them, for example, is the stock market. It is generally four to six months ahead of current events. One cannot help but wonder what Wall Street sees in all of its cheer that the rest of the country is not seeing. The summer rally and now this one in the fall could turn a lot of spirits around. The ebullience in part rests on the continuing decline in interest rates which the recession produced. Of more importance has been the Federal Reserve System, which in effect has said it will not fight the decline in interest rates and it will increase the money supply so as to fire the recovery but will not do so for the long run so as to rekindle inflation. With this the stock market boomed in October.

Chances are good that with as much slack as there is in the economy (productive capacity and employment) no damage will be done by increasing the money supply. Inflation is now just above five percent for the year to date and it now looks as if the entire year will come in at about a 5.5 percent average. Even as one can get priced out of the market by high rates of inflation, so also one can get priced back into the market by low rates of inflation.

All of these—stock market joy, falling interest rates, slowing inflation—are conducive to upturns in consumer sentiment. This is not to say it will be euphoric. The recovery will be slow. There will be some falling back (August for example) and some moving forward (September). Like the course of true love, no recovery runs smoothly. There are signs in some areas of an outbreak, because of pent up demand. Economist Alan Greenspan has suggested that some further "cuts in mortgage rates could stoke the nation's homebuilding market enough to trigger a full-scale economic recovery." Look too at the terribly low scrappage rate for autos. There are all kinds of possibilities and needs.

If so, "Reaganomics" many not be "Rag-onomics." You may want to stay the course. The critics, though, would admonish you with an "Oh, yeah: keep the landing lights on. Amelia Earhart is coming back soon." LET

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